

VZCZCXRO9929  
RR RUEHAO RUEHRS  
DE RUEHME #0634/01 0531611  
ZNR UUUUU ZZH  
R 221609Z FEB 10  
FM AMEMBASSY MEXICO  
TO RUEHC/SECSTATE WASHDC 0548  
INFO ALL US CONSULATES IN MEXICO COLLECTIVE  
WESTERN HEMISPHERIC AFFAIRS DIPL POSTS  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEHC/DEPT OF LABOR WASHINGTON DC  
RUEHML/AMEMBASSY MANILA 0010  
RUEHNE/AMEMBASSY NEW DELHI 0001  
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC

UNCLAS SECTION 01 OF 03 MEXICO 000634

SENSITIVE  
SIPDIS  
SIPDIS

E.O. 12958: N/A  
TAGS: [AID](#) [ECON](#) [MX](#)  
SUBJECT: The Awesome Potential of Remittances

THE AWESOME POTENTIAL OF REMITTANCES

¶1. (U) Summary: Remittances to Mexico fell approximately 16% from 2008 to 2009. This was due primarily to the economic and financial crisis the U.S. experienced in 2009 that compromised Mexican migrants' ability to get work. Remittances from the U.S. to Mexico totaled US\$21.28 billion in 2009 and accounted for approximately 27% of rural income and 19% of urban income. The IDB expects remittances to stabilize around US\$21 billion per year. The use of remittances fascinates international organizations, governments, and development agencies, but so far there is little accord on the proper channeling of remittances. End summary.

Remittances by the Numbers

-----  
¶2. (U) At US\$21.28 billion in 2009, remittances represent Mexico's second most important source of foreign exchange after oil exports. They provide around 27% of income on average for rural families and 19% of income for urban families. Largely because of the slump in U.S. activity in the construction and manufacturing industries, migrants have struggled to find work. More stringent laws in several states and an overall bias against hiring foreign labor when unemployment is so high in the U.S. have also contributed to a drop in income for migrants, documented and undocumented. Remittances received in November 2009 were the lowest they have been since March 2005, though the amount of money sent increased by around 1.3% month-on-month in December 2009. The IDB expects remittances to stabilize around US\$21 billion per year for the foreseeable future, provided the U.S. job market recovers.

¶3. (U) The U.S. and Mexico began to officially track receipt of remittances in the mid-1990s, and since then the study of use of remittances has become an academic field in its own right. There is strong disagreement between actors on how remittances should be used and channeled. Some say that an extra US\$20 billion should be used productively to support economic opportunities and infrastructure improvements in the migrants' own communities. Others say that migrants should use the money for the basics of consumption and household survival.

Mexico's 3X1 Program

-----

¶4. (U) The state of Zacatecas, a major source of migrants to the U.S., launched a "one-for-one" (1X1) program in 1986, matching each peso of migrant money remitted with a peso from state funds. In 1991, Guerrero launched a two-for-one (2X1) program, adding municipal funds to the 1X1 program; Zacatecas followed with its own 2X1 in 1992. The positive results in Guerrero and Zacatecas inspired the federal government to begin matching funds in those states in 1998, and in 2001 it launched the Citizen Initiative Three-For-One Program (3X1) with a nation-wide footprint through the Secretariat of Social Development (Sedesol). 3X1 is generally most active in the poorest parts of the country because those are the areas that send the most migrants. Most of the money coming into 3X1 comes from migrant clubs rather than individuals, and migrant clubs have a strong voice in the nature of the programs they sponsor. This can lead to friction between the "home town associations," migrant communities, and local government officials.

¶5. (U) Currently the 3X1 program is active in 26 states including Zacatecas and Guerrero, and despite the overall drop in remittances, 3X1 monies remained stable at around US\$77 million between January and September 2009. In the first three quarters of 2009, 3X1 had approved more than 2,139 projects, exceeding its annual goal by 42%, including:

MEXICO 00000634 002 OF 003

- 898 projects improved "urbanizaci????n" and paving;
- 421 projects improved water and sanitation;
- 276 projects improved educational, sport, and health infrastructure;
- 116 projects improved electrification;
- 101 projects improved productive projects; and
- 60 projects improved rural roads.

Criticism of 3X1

-----

¶6. (U) Many actors in the study and management of remittances criticize programs like 3X1. They say migrant money is private money and should not be considered another source of public resources. In effect, 3X1 can give the GOM a 25% discount on services it should be providing anyway when it contributes to projects like building roads, improving drainage and sanitation systems, and restoring health and educational facilities. Critics claim that massive out-migration is the result of a deeply flawed job market and that the GOM should not punish migrants twice: once by forcing them from their families and homeland, and again by usurping the money they earned elsewhere. Salaries that become remittances are usually taxed in the U.S. whether the workers are documented or not, so more government intrusion in Mexico is unjust. On the other hand, others say that 3X1's non-infrastructure programs can be quite beneficial to migrant-sending communities. In Zacatecas in 2009, for example, several people received student scholarships through contributions from 3X1; other projects created multi-use rooms for communities.

Harnessing Wealth and Supporting Entrepreneurs

-----

¶7. (U) Approximately 86% of money received from migrants is spent on immediate consumption within the family. The remaining 14%

is often put into informal savings (mattresses and socks) or, in a good scenario, into a microfinance organization, credit union, or other non-bank financial institution. Unfortunately, according to contacts at the Inter-American Development Bank, very often the depositor (usually the wife or mother of a migrant) does not feel authorized to risk the money in an investment project. Thus credit unions and lending organizations, which need to lend around 70% of their capital, cannot survive in the areas where they were introduced. Additionally, consumer protection organizations like PROFECO and CONDUSEF must provide better and more active services. In response to the regulation gap, USAID provides technical assistance to establish guidelines for regulatory oversight of microfinance institutions to the Mexican Banking and Securities Commission. Currently around 20% of Mexicans have access to the internet, and functional literacy is lower than average among the poor and isolated. Watchdog groups must consider means besides cutting edge technology to communicate their warnings.

¶18. (U) Econoff contacts recommended improved banking services, business incubation, increased access to a variety of traditional and non-traditional export markets, and a market-oriented - as opposed to economic development - approach to lending. In terms of agriculture, where most holdings produce only for family consumption and where many farms lie fallow due to the absence of the men who worked them prior to migrating, investment by the GOM and recipients of remittances in export farming infrastructure, such as greenhouses and agriculture extension support of export crops, is one manner of harnessing remittances and involving the GOM in a fully positive way. Another way the GOM could help recipients of remittances channel the money into productive purposes is to provide market research into tourist spending on

MEXICO 00000634 003 OF 003

indigenous-chic products that could be made in communities that send migrants with small, targeted investments of remittances. (Note: Most social programs in Mexico lack a market component. For these suggested programs to be successful, the government would have to address that component. End Note)

¶19. (U) Although including all actors in economic development schemes is important for success, econoff contacts warned against too heavy involvement of municipal officials. As at all levels of government, elected officials only serve a single term: in all states except Coahuila (where they serve four years), municipal officials serve three years. While term limits prevents dynasty-like control over local governments, it also reduces the accountability of municipal officials and increases their incentives to maximize personal gains while in office. Municipalities are often the first level of barriers to entrepreneurs. Officials generally have between eight and ten years of formal education, and programs that rely too heavily on them risk elite capture.

¶10. (U) Comment: The drop in remittances in 2009 is newsworthy and important because it strongly impacts the ability of Mexico's poor to consume at their usual level and will thus impact the recovery of domestic demand. As the U.S. job market recovers, however, remittances are expected to stabilize around US\$21 billion per year. Remittances can provide the poor with capital and a credit history, and they can be part of the impetus to improve socioeconomic conditions. There is a strong and important role for the market, specifically banks, to play in the improvement of services available to the poor and marginalized; the GOM will also need to participate to regulate the market and prevent crises of confidence like those that have occurred in the past. Mexico needs to pair its programs for channeling remittances with both improved financial education and market institution outreach to reduce risk aversion and reduced barriers to entry to improve poor people's ability to participate in the formal sector. The country's strong focus on community-driven development might also turn problematic

as the market, the only real driver in the current political economy, notoriously favors positive deviant individuals.  
FEELEY